Internal Revenue Service

Department of the Treasury

District Director

1100 Commerce St., Dallas, Texas 75242

Date: (JUN 5 1997

Employer ID Number:

Person to Contact:

Telephone Number:

Refer Reply To:

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code.

You were incorporated in a trail ride and an all girls' rodeo on an annual basis. The proceeds of these events are used to provide scholarships for underprivileged students and program in the

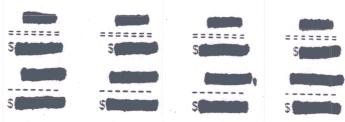
The trail ride is held each year during February. Each rider pays an entry fee of \$1. The trail ride is open to the general public and to all ages. The trail ride starts in and ends at Expenses of the event include fees for land use, clean-up and security. The land and facilities used in this event are owned by unrelated parties.

The all girls' rodeo is held each year in May. Participants are age 14 to any adult. The president of the organization donates the use of his arena for this event. Admission fees are \$ for adults and for children. Fees are also charged for concession items. Expenses for the event include rodeo labor and stock, security, food and entertainment, producer's fees, insurance, clean-up, gate passes and food, arena fee, photography, gas, emergency services, port-a-cans, arena maintenance, gate keeper, cookers, and "added money", ie. cash prizes.

Donations are received each year from a local business. Actual revenues and expenses are as follows:

Cash Donations Concessions and Entry/Admission fees

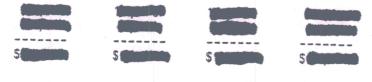
Total Revenues



Trail Ride and Rodeo Scholarships/ program

Total Expenses

Excess of revenue over expenses



The percentage of total support used for charitable activities ranges from to total support used for charitable activities ranges from purposes in the last four years has decreased while total revenues have

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

"(3) Corporations,*** fund, or foundation, organized and operated exclusively for religious, charitable, scientific, *** literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office."

Section 1.501(c)(3)-1 of the regulations provides, in part, as follows:

"(a)(1) In order to be exempt as an organization described in section 501(c)(3), an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt."

"(a)(2) The term "exempt purpose or purposes," as used in this section, means any purpose or purposes specified in section 501(c)(3), as defined and elaborated in paragraph (d) of this section."

"(d)(2) Charitable defined. The term "charitable" is used in section 501(c)(3) in its generally accepted legal sense and is, therefore, not to be construed as limited by the separate enumeration in section 501(c)(3) of other tax-exempt purposes which may fall within the broad outlines of "charity" as developed by judicial decisions. Such term includes: Relief of the poor and distressed or of the underprivileged; advancement of religion; advancement of education or science; erection or maintenance of public buildings, monuments, or works; lessening of the burdens of Government; and promotion of social welfare by organizations designed to accomplish any of the above purposes, or (i) to lessen neight phood tensions; (ii) to eliminate prejudice and discrementation; (iii) to defend human and civil rights secured by

law; or (iv) to combat community deterioration and juvenile delinquency."

"(e)(1) An organization may meet the requirements of section 501(c)(3) although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and if the organization is not organized or operated for the primary purposes of carrying on an unrelated trade or business, as defined in section 513. In determining the existence or nonexistence of such primary purposes, all the circumstances must be considered, including the size and extent of the trade or business and the size and extent of the activities which are in furtherance of one or more exempt purposes."

Section 501(c)(4) of the Internal Revenue Code provides exemption for:
"Civic Leagues or organizations not organized for profit but
operated exclusively for the promotion of social welfare..."

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that:

"An organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterment and social improvements."

Revenue Ruling 64-182, 1964-1 C.B. (Part 1), 186, holds that any organization which derives all of its income from a commercial enterprise may meet the primary purpose test of section 1.501(c)(3)-1(e)(1) of the Income Tax Regulations and be entitled to exemption under section 501(c)(3) of the Code where it is shown to be carrying on, through contributions, a charitable program commensurate in scope with its financial resources.

Revenue Ruling 68-224, 1968-1 C.B. 262, describes an organization that conducts an annual festival centered around regional customs and traditions which qualified for exemption under section 501(c)(4) of the Code. The annual festival featured a banquet or barbecue, a parade, various contests and a rodeo. The ruling stated that in carrying out these activities, the organization provides recreation for the community, publicizes the community and attracts persons to it, promotes community growth, and provides a means whereby citizens may express their interest in local history, customs, and traditions. These activities promote the common good and general welfare of the people of the community and bring about civic betterments and social improvements.

It is your position that you are a purely charitable organization that contributes all of its proceeds to provide educational opportunities for deserving students. The scholarship program is foundationally real in purpose. The work of your officers is donated. No one receives a salary, except necessary temporary workers. You also state that the charitable program has been overwhelmingly successful commensurately with financial resources of the organization. The trail ride and all girls rodeo are annual events that are wholesome for the community. Both events continue to grow in

popularity. Administrative costs are nominal, if at all. The fundraising cost will decrease as popularity of the events continues to grow. Finally, you indicate that the expenditures for the events are less than that of profit raise annually to the students, and the department to be distributed annually to deserving students. You also state that, as you continue to grow, the annual contribution to these programs will grow in percentage gradually as the organization grows and that the scholarship donation will also increase.

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The operation of trail rides and rodeos is not, in and of itself, a charitable activity as defined in the regulations. In contrast to Revenue Ruling 64-182, resources. The facts presented indicate that the distributions made to charity are nominal in light of the scope of gross receipts produced by the trail rides and rodeos. You have indicated that in future years, you intend to use at least % of your gross receipts for charitable purposes. In the proceeds for charitable purposes. In fact, the percentages donated have you can be reasonably expected to achieve your goal of using %, of your gross receipts for charitable purposes.

Your activities more closely resemble the activities of the organization described in Revenue Ruling.68-224 which qualified for exemption under section welfare of the people of the community.

Accordingly, you do not meet the primary purpose test described in section 1.501(c)(3)-1(e)(1) of the Income Tax Regulations and you do not qualify for exemption from Federal income tax under section 501(c)(3) of the Code. You are required to file Federal income tax returns on Form 1120.

If you wish to apply for exemption under section 501(c)(4), you may complete and return the enclosed Form 1024.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Code as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

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If this determination letter becomes a final determination, we will notify the appropriate State Officials, as required by section 6104(c) of the Code, that based on the information we have, we are unable to recognize you as an organization of the type described in Code section 501(c)(3).

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

Bobby E. Scott District Director

Enclosures:
Publication 892
Form 6018
Form 1024